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## Abstract

The International Monetary Fund's Articles of Agreement give countries wide latitude to regulate cross-border capital movements, subject mainly to the proviso that such regulations not be used to manipulate the exchange rate for the purpose of gaining an unfair competitive advantage. Beginning from the 1990s, however, the IMF has seemed far more supportive of fully open capital accounts than its legal framework. This can be seen not only in the institutional push to amend the Articles to enshrine fully open capital accounts in the mid-1990s, but also in subsequent speeches by IMF managing directors impugning capital controls and recent attempts to codify a set of highly restrictive circumstances under which countries may avail themselves of external financial regulations. This history suggests that, institutionally, the IMF would be far more comfortable with an architecture in which countries (strive to) eliminate restrictions on cross-border capital movements than with the vision of capital controls enshrined in its constitution by the IMF's founding fathers, Keynes and White.



JEL Classification: B31, F21, F32, F38

Keywords: Capital controls, IMF, Articles of Agreement, Keynes and White



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**The IMF's Journey on Capital Controls: What is the Destination?**[1]

Jonathan D. Ostry[2]

**Abstract**

The International Monetary Fund's Articles of Agreement give countries wide latitude to regulate cross-border capital movements, subject mainly to the proviso that such regulations not be used to manipulate the exchange rate for the purpose of gaining an unfair competitive advantage. Beginning from the 1990s, however, the IMF has seemed far more supportive of fully open capital accounts than its legal framework. This can be seen not only in the institutional push to amend the Articles to enshrine fully open capital accounts in the mid-1990s, but also in subsequent speeches by IMF managing directors impugning capital controls and recent attempts to codify a set of highly restrictive circumstances under which countries may avail themselves of external financial regulations. This history suggests that, institutionally, the IMF would be far more comfortable with an architecture in which countries (strive to) eliminate restrictions on cross-border capital movements than with the vision of capital controls enshrined in its constitution by the IMF's founding fathers, Keynes and White.

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[2] Georgetown University and CEPR; email address Jdo58@georgetown.edu. The author is grateful to Steve Grenville and especially to David Vines for helpful suggestions and discussions, and has benefitted from the companion analysis in Grenville (2022). Views expressed are those of the author and should not be attributed to any institution with which he is, or has been, affiliated.

*Loose funds may sweep around the world, disorganizing all business. Nothing is more certain than that the movement of capital funds must be regulated—which, in itself, will involve far-reaching departures from laissez-faire arrangements*.

**John Maynard Keynes (1941)**

John Maynard Keynes and Harry Dexter White, the founding fathers of the IMF, considered national regulation of cross-border capital flows to be an essential feature of the post-War international financial architecture, and enshrined this vision into the IMF's Articles of Agreement. Article VI of the Fund's Articles stipulates that member countries may implement restrictions on capital movements that are appropriate for their national objectives, subject only to the proviso in Article IV that controls not be used to manipulate the exchange rate for the purpose of gaining an unfair competitive advantage. Keynes and White were influenced in their perspective by the experience of the interwar period, which demonstrated the tension between unfettered capital movements and effective economic management and liberal trade. The latter, Keynes and White were convinced, should be a cornerstone of rebuilding economic prosperity and provide insurance against another Great Depression fueled by a trade war.

Restrictions on capital flows were commonplace for many decades after the Second World War, implemented by the world's richest nations (including the United States from the 1960s and the United Kingdom—the latter following its disastrous dash to convertibility in 1947 which lasted for all of six weeks), whose citizens were subject to an array of restrictions on cross-border capital movements mandated by their national authorities.

This began to change in the aftermath of the collapse of the Bretton Woods system of fixed exchange rates, especially from the 1980s onwards, as capital account restrictions came down. The Washington Consensus movement, and the Reagan-Thatcher free-market revolution, accelerated the dismantling of capital account restrictions, as deregulation across a wide swath of economic policies came into vogue. The OECD Liberalization Code on Capital Movements, approved in 1961, may have had an influence on the process, especially after its amendment in the 1980s to include short-term capital movements. Institutionally, the OECD's perspective on capital controls was markedly different from the IMF's legal framework. As one senior OECD official described the difference, institutionally the OECD views fully open capital accounts as the "true North star" guiding policy in this area, something that is far from evident in the IMF's case. Beyond the advanced economies, emerging market economies also swept away an array of capital controls. Their motivation, as one influential emerging market policy maker put it, was that eliminating capital controls was a sign of maturity, of growing up: rich countries had open capital accounts and so, to get rich, emerging market economies needed likewise to have open capital accounts (*post hoc ergo propter hoc* notwithstanding). And as one of the world's leading academic economists noted, the market discipline generated by open capital accounts provided the best available insurance against misallocation of financial flows.

**The IMF's dash for a mandate to open capital accounts in the 1990s**

And so, against this background, the IMF decided in the mid-1990s to strike while the iron was hot. Specifically, sensing that there was momentum for enshrining into the international

financial architecture the goal of unfettered cross-border capital flows, the institution sought support from the membership for an Amendment to the Articles of Agreement, overturning the Keynes-White vision agreed at the Bretton Woods Conference in 1944. The IMF Managing Director at the time, Michel Camdessus (who had been part of the Mitterrand administration in France that had formulated the aptly-named *tournant de la rigueur* which included a U-turn on France's traditionally-favorable position on capital controls), decided the IMF should be given jurisdiction over member countries' external financial regulations, to allow the institution to prohibit the imposition of capital account restrictions without prior IMF approval and to give the IMF an explicit mandate to promote capital account liberalization in all member countries (though with numerous safeguards and long transition periods). Aligning itself with the OECD's vision of fully open capital accounts as the true North Star, the governing body of the IMF during its Annual Meetings in Madrid in 1994 urged all "member countries to remove impediments to the free flow of capital."

It was not divine intervention that stopped the IMF's gambit in its tracks, but rather the unfolding Asian financial crisis (as well as some trepidation by the US banking community that the IMF was grabbing far too much power for itself). The Asian crisis, and the particular role played by hot money flows in Thailand, the first country in the region to succumb to a full-blown crisis, alarmed many emerging-market policy makers who saw a clear potential for the IMF plan to force them to liberalize cross-border flows prematurely and amplify risks of the type of financial crisis that was bringing down economies across East and Southeast Asia. It was notable that Korea's decision to liberalize short-term capital flows ahead of long-term flows, perhaps to enhance the country's credibility vis-à-vis the OECD's Liberalization Code, was seen

by emerging market policy makers as likely to wreak havoc if followed more broadly in the developing world in response to the IMF's proposed new rules. Notwithstanding continued European support for the IMF proposal, the US Congress's demand that US backing for the amendment to the IMF's Articles be withdrawn put the final nail in the coffin of the proposal.

**The interregnum after the Asian Financial Crisis**

After the debacle over the Amendment to the IMF's Articles, the institution embarked on a low-key effort to codify how it would give advice on capital account matters to its member countries. Given the wide latitude provided to member countries under the Articles, the absence of a set of principles to guide IMF policy advice was perhaps unremarkable. But given the IMF's surveillance role, which includes monitoring countries' economic developments and providing advice on how to enhance macro-financial stability and economic growth, the absence of a set of guiding principles might be seen as a recipe for disjointed advice, with different country teams singing from individual hymn books, essentially reacting to what the authorities are doing, rather than being in a position to guide policies in a manner consistent with state-of-the-art economic theory and empirical evidence from across the entire membership.

What evolved was the "integrated approach"—not to be confused with the "integrated policy framework" discussed below—the former is a guide to manage capital account liberalization while the latter is a guide to manage capital flow volatility for a given level of liberalization.[3]

[3] On the integrated approach, see Ishii and Habermeier (2002).

Under the integrated approach, countries should liberalize foreign direct investment inflows in a first stage; they may also allow some short-term foreign exchange (FX) borrowing and lending in order to develop the interbank FX market, but with safeguards against currency exposure on individual balance sheets. In a second stage, as domestic financial liberalization and supervision improve, countries should liberalize long-term flows, while maintaining some controls on short-term debt flows, especially in FX. In a third and final stage, full liberalization of all flows is to be achieved, i.e., a fully open capital account.

Interestingly, the integrated approach said little, if anything, about how countries should contend with capital flow volatility, even against the backdrop of the boom-bust cycles that had so recently brought down the miracle economies of East Asia. When the IMF's Independent Evaluation Office (IEO) focused on this deficiency, it examined 19 surveillance cases where the Fund had proffered advice, whether sought or not, and found the advice to be very much of apiece with the institution's pre-Asian crisis thinking.[4] In 12 of the 19 cases, the cornerstone of the IMF's advice was to tighten fiscal policy in the face of surging inflows (IMF advice was also to tighten fiscal policy in the face of capital outflows). And in 14 of the 19 cases, IMF advice was to allow exchange rate flexibility in the face of surging inflows (IMF advice in the face of outflows was likewise to allow the exchange rate to adjust). In a few cases where the FX market had become disorderly, the IMF countenanced sterilized FX market intervention. And in a very

[4] For the report written by the IMF's Independent Evaluation Office, see IMF (2005). The IMF's Independent Evaluation Office (IEO) was established in 2001 to conduct independent and objective evaluations of Fund policies and activities. Under its terms of reference, it is fully independent from the management of the IMF and operates at arm's length from the Board of Executive Directors. The IEO Director is appointed by the Executive Board and reports to the Executive Board, and may be terminated by the Board. The IEO has a small staff, including external consultants selected by the Director, the majority of whom will come from outside the Fund.

small number of cases, IMF staff advised a tightening of prudential banking regulations to contain financial-stability risks; in only two of the 19 cases did staff see any role for capital controls.

Although there was no rule book laid down and codified, it is clear that capital controls were very much a last resort in the view of IMF staff. While the IMF managing director who had pushed to amend the Articles in the mid-1990s had moved on, his successor in the mid-2000s had the same ideas. Rodrigo de Rato continued to advance the philosophy that fully open capital accounts were the right goal for emerging market economies, and that capital controls were rarely if ever an appropriate remedy for contending with surging or volatile flows.[5] In a speech made about a decade after the Asian financial crisis, de Rato enumerated a set of policy actions that countries should undertake before contemplating heterodox measures such as capital controls.[6] The mainstays of his list were exchange rate flexibility and fiscal tightening, and structural measures such as liberalizing outflows to deal with surging inflows and accelerating domestic financial sector development to improve domestic intermediation of foreign flows. He echoed his predecessor's views that capital controls were distortive and ineffective, and could think of no conditions under which they would be beneficial for a country. While the pursuit of legal jurisdiction over the capital account had been shelved, the IMF's institutional position remained as it had been in the mid-1990s: fully open capital accounts were the appropriate goal, with little scope for short-term restrictions, and then only

[5] Rodrigo de Rato took over as managing director of the Fund in May 2004 and announced his intention to resign in June 2007 for personal reasons (before the end of his term), stepping down in October 2007.
[6] Remarks delivered at the SEACEN Governors Conference, Bangkok, Thailand, July 28, 2007.

in last-resort conditions. That the IMF would have such a position, which so clearly ran counter to its constitution, and for many decades, is nothing short of remarkable.

**The Institutional View, 2012**

The IMF is nothing if not adaptable, and its positions can evolve over time, especially to keep up with the policy preferences of its largest shareholders. On most issues, there will be a diversity of country perspectives at the IMF's Board, so IMF management will attempt to guide the institution toward a perspective it considers to command broad, if not unanimous, support. The IMF's political masters were not going to approve an amendment to the Articles to enshrine free capital mobility in the mid-1990s; nor, one suspects, would the IMF's political masters have considered favorably any amendment to the Articles that updated or reassessed the permissiveness on capital controls that Keynes and White achieved in the Articles. The result was a stalemate legally, with no change to the Articles, but with the institutional preference for fully open capital accounts clearly entrenched and recognized to be so.

Indeed, the de Rato speech shows that a decade after the IMF's failure to achieve a legal mandate for open capital accounts, the institutional perspective on capital controls was well-aligned with what the IMF had sought to achieve on a legal basis. The Asian crisis that had derailed the IMF's bid to amend the Articles would not change the IMF's policy advice on the ground. That advice would continue to be guided by free-market, open capital account, principles. It would enshrine the institutional perspective articulated by Camdessus and de

Rato: capital controls don't work; they are distortive and cause harm; and they should not be used.

However, the world was changing in a way that made the institution's position untenable. The extreme monetary easing undertaken by the Federal Reserve following the US financial system meltdown in 2008-09 was having major global spillover effects, including to emerging market economies. The official position of the Federal Reserve at the time was that its actions were on the whole good for emerging market economies: US growth was stronger, and there were positive spillovers from this to emerging market economies. If emerging market economies were uncomfortable with the resulting appreciation of their currencies that capital inflows engendered, it was because they were mercantilist. On this view, strong EM currencies were serving to moderate the capital inflow surges EMs were complaining about, and were thus a desirable equilibrating mechanism. While stronger currencies might partly offset the effect on EM exports from stronger US economic growth, this would not alter the picture that Fed easing was on balance still good for emerging market economies.

This would have been the IMF's institutional position as well, but for the fact that some emerging market economies had begun to speak out more forcefully about their own experience in the era of US quantitative easing. And at the same time, a new Managing Director had taken charge of the IMF, and he was sympathetic to the complaints by emerging market country officials.

Emerging market countries, much to the detriment of their own interests, rarely speak with one voice at the IMF on policy issues that affect them. They prefer, to paraphrase Tolstoy, to be

unhappy in their own individual ways (leaving IMF decisions to be taken by the largest advanced-economy shareholders) than to strive to achieve some common happiness by speaking together as a block. While EM chairs did not fully coordinate their positions in the aftermath of the global financial crisis, at least some of them were speaking loudly, and no EM chair was contradicting the vocal EM speakers in an obvious manner. This helped their position in the IMF Board.

With Dominique Strauss-Kahn as the new MD, there was an understanding at the top of the institution of how Fed policy was affecting EM countries. And when Ministers from Latin America and Asia spoke on these issues, disputing the notion that what is good for the US is also ipso facto good for EMs, this began to resonate. The MD also understood that the Fund needed to take great care with its policy advice and messaging, as a global institution charged with helping all countries to manage the challenges posed by globalization in an era of deep financial crisis in the system's core economy. He understood, correctly, that the EM complaints were not about the level of macro policy support in the US, but about its composition. A different fiscal-monetary policy mix in the US could well have made the global spillovers less adverse for emerging market economies, without undercutting the ability of the US to restore its own economic vigor and financial stability.[7]

Since US politics wasn't going to deliver the policy mix sought by EMs, Strauss-Kahn was sympathetic to the idea that EMs needed more tools than the tired Fund policy line allowed for.

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[7] In a two-country Mundell-Fleming model, looser fiscal policy in the United States would lead to capital outflows from emerging market economies while looser monetary policy in the United States would lead to capital inflows to emerging market economies. An expansionary macroeconomic policy in the US, with greater weight on fiscal expansion and less weight on monetary expansion (but a similar expansionary stance for the US overall) would have engendered less problematic spillovers to EMEs, in the eyes of EMEs.

So he directed the IMF's research department to take a fresh look at the policy toolkit, and make some recommendations. The result was two staff position notes written in 2010 and 2011 (Ostry et al., 2010, 2011a), later published in academic journals as Ostry et al. (2011b and 2012), and summarized in a lecture I delivered at Stanford's Hoover Institution a few years ago: Ostry (2019). A comprehensive treatment of these and related capital flow management issues was published in Ghosh et al. (MIT Press, 2018), which provides a policy guide for emerging market economies on the management of capital flow booms and busts.

The two staff position notes formed the analytical backbone of the Institutional View approved by the IMF's Board in 2012. The Institutional View Board paper, IMF (2012), runs to about 50 pages, and represents the IMF's official position. That paper was preceded or accompanied by a series of other Board papers that one needs to read to get a full appreciation of what the institutional position of the Fund is, so we are talking about something on the order of 300 pages of prose to get the full picture.

Page numbers are rarely of interest but, in this case, they are. The length of the documents reflects the fact that Fund staff who wrote these papers did not see eye-to-eye on the key issues, and there was a need, therefore, to caveat and explain matters at great length to achieve sign-off at the staff level. The tortuous drafting was also needed to get the papers approved by the Board, which was even more deeply divided than the staff. So each Board member would find something in a paper (s)he liked and a bunch of things that were not liked, but a balance was achieved to secure the needed political compromise. Another aspect of the length and difficult prose is that interpretation and implementation would leave considerable room for interpretation and maneuver. On some interpretations, the Board paper should have

led to an implementation consistent with the spirit of the demands by emerging market economies for genuine change; on other interpretations, no genuine change would also be consistent with the Board's decision.

It should also be noted that, while many emerging market chairs wanted additional flexibility to use a variety of policy tools, there was also trepidation in some quarters about giving IMF bureaucrats power to interpret the Board's intentions in approving the Institutional View paper. One emerging market chair commented that the last thing emerging market countries needed was a Board paper delineating a set of circumstances under which countries may use capital controls. The reason he gave was that the Articles of Agreement already provided more than sufficient flexibility from a legal standpoint. So, if the point of the Board paper is to pave the way for legitimizing capital controls, the paper is not needed, and might actually become a straightjacket for policy responses emerging market countries might wish to take, and lead to stigmatization of those actions in the event they were taken (which is of course precisely what happened). This EM chair worried that the real agenda was to make it more difficult, rather than easier, for EMs to deploy controls, by stipulating a set of overly restrictive conditions that had to be met for the IMF to legitimize capital controls in a country's particular circumstances. In this chair's perspective, the problem EM countries had with the IMF was its ideological bias against capital controls, not lack of legal flexibility under the Articles.

Leaving such points aside, what did the Institutional View Board paper achieve? The most important element of the Board paper is that controls "should not substitute for warranted macroeconomic adjustment." This clause is central, and is very much in the spirit of Keynes and White. It is saying that a country should not deploy capital controls (or other macro policies that

are made possible by capital controls) to beggar its neighbors through competitive depreciation. This point is very sensible and, had the paper said little more than this, would have avoided many of the problems that transpired.

With this core principle recognized, the question arises: if a country is not using controls to beggar its neighbors, can it in fact deploy such measures with the IMF's blessing or not? Here, the answer is complex. For macroeconomic purposes (i.e., to reduce currency overvaluation), a country may restrict inflows as a last resort, after all standard policies (such as fiscal tightening, currency appreciation, reserve accumulation, etc.) have failed to stem the currency overvaluation problem. And controls for macroeconomic reasons can only be deployed during an inflow surge, and must be removed once the surge has ended. For financial-stability purposes (i.e., when inflows are amplifying financial-stability risks), controls may not need to be removed once the surge has ended if alternative nondiscriminatory prudential measures are not available or effective to safeguard financial stability. The guidance for financial-stability inflow controls was that they, too, could not be imposed except during a surge, but they might not need to be removed after the surge has ended. Finally, outflow controls should always be eschewed, except in a crisis or when the economy is in imminent danger of entering a crisis.

A couple of other points are perhaps worth mentioning. The Board paper clarified that the IMF did not see fully open capital accounts as the appropriate end-goal for all countries. And it recognized that some countries might come to the view that they had liberalized prematurely, and in such cases those countries could re-impose restrictions more appropriate to their overall situation on a permanent basis.

**The revision to the Institutional View, 2022**

The problems with the Institutional View were apparent before the ink was dry, and grew over time. The first issue is that there is no economic or policy reason to restrict the use of capital controls on inflows for financial-stability purposes to circumstances where the economy is experiencing an inflow surge. Legally, capital controls are discriminatory measures: they discriminate against non-resident investors. Economically, they are in many circumstances equivalent to non-discriminatory macroprudential measures. A regulation that restricts FX borrowing by banks is a macroprudential measure, but in circumstances where such borrowing is from nonresidents, it is a capital control in economic terms but not in legal terms. If certain financial flows are likely to increase balance sheet risks, a preemptive measure, before the issue reaches a boiling point, is desirable to contain the risks. There is no economic reason to allow a preemptive macroprudential regulation but to prohibit a discriminatory regulation that has the same economic impact. By labeling some measures as capital controls, with the associated stigma, the Institutional View likely discouraged stability-enhancing measures in the global system.

Many countries felt that the labeling and stigmatizing by the IMF of measures taken by EMs was a step backwards. Such countries were demanding that prudential measures designed to underpin financial stability should never be stigmatized by the IMF, especially since, in many cases, the cross-border flows being targeted by the measures were riskier than domestic credit flows, thereby justifying the discriminatory nature of the prudential measures (on well-founded, Pigouvian taxation grounds). And so, the IMF tried to be responsive to this concern by allowing, in the revised Institutional View, countries to impose preemptive inflow controls for

financial-stability purposes when there are balance sheet mismatches that are not properly internalized in individual borrower behavior (a Pigouvian tax to solve an externality from individual borrowing decisions). That is a step forward, and was buttressed by the analytical work that underpinned the revision to the Institutional View: the so-called Integrated Policy Framework to which I referred earlier.

The IPF documents consist of a series of papers running to several hundred pages produced by a very large team of top-notch researchers led by the economic and financial counsellors of the Fund over several years.[8] The core theoretical paper is a highly-technical micro-founded model that justifies preemptive inflow controls for financial-stability purposes. IMF management commissioned this work based on the notion that the Board would be in a better position to decide on the merits of preemptive controls if it had access to the highest standard of academic research.

The papers are of the highest academic standard, but it seems implausible that the rigor of the work would be the deciding factor behind the political compromise in favor of allowing preemptive inflow controls. As one senior staff member who was intimately involved reiterated, the Fund remains strongly in favor of fully open capital accounts to this day, and so does the Board: the long list of restrictions that remain on the use of controls reflects the Fund's unchanged ideological position. The analytical work, while important outside the Fund, could only have provided a veneer inside. And, as a former Fund chief economist once remarked, policy conclusions are sometimes more compelling when deduced from tractable,

[8] The bibliography of IMF (2022) lists the key analytical papers in the IPF.

simple, reduced-form models, particularly when it is known that the less tractable, but sounder, micro-founded models deliver the same conclusion.[9] Simpler models than those produced under the auspices of the IPF indeed have long-established that prudential regulations need to anticipate future risks, not merely be reactive to a problem that is already boiling over during a surge.

With the step forward on preemptive inflow controls, the revised Institutional View paper nevertheless was a missed opportunity to provide a coherent position for the Fund based on the core of the Articles of Agreement, and on the principle that the Fund's business is to de-legitimize controls that are beggar-thy-neighbor (or export financial instability), but to stay out of the way otherwise. Two issues have been particularly salient in the decade since the original Institutional View paper was approved, but were left unaddressed by the revised paper in 2022.

The first is the construct, in the Institutional View, that capital account regulations are only ever used for macroeconomic or financial-stability purposes. The implication of that false construct is that if one observes a capital control in the world, one must first ask whether it was imposed for macro or financial reasons, and then evaluate the measure on that basis. This creates a lot of problems, because many actual measures are not designed to change the exchange rate (macro) or to improve financial stability.

A series of measures implemented by Australia, Canada, Singapore and many others were designed to cool off hot domestic real estate markets being fueled in part by foreign purchases, and so make owning a house more affordable for the domestic middle class (a social objective

[9] Blanchard (2018).

that the Fund has no say over, any more than it has a say about how high domestic excise taxes on cigarettes ought to be).

To see how the construct from the IV gets the Fund into trouble, the example of Tasmania, a sub-national government in Australia representing about 2 percent of its population, is illustrative. The Tasmanian authorities imposed a small tax on foreign real estate inflows, and altered the tax rate from time to time. That tax cannot possibly have macroeconomic effects in Australia (i.e., influence the value of the Australian dollar in the foreign exchange markets); it is not designed to have any material effect, nor is it likely to have any material effect, on the health of Australia's banking system; and it cannot export financial instability to other countries. Yet the Fund in this case, as in so many others, labelled the measure a capital control that needed to be removed because it did not meet any of the criteria envisaged in the Institutional View. While a country such as Australia can laugh this off (but with the caveat that it undercuts the Fund's reputation in a core surveillance area), other countries may suffer material harm from the stigma generated by Fund labeling of their policies. These stigmatizing effects run against the grain of the global financial stability the Fund seeks to promote.

The second issue the revised Institutional View fails to come to grips with is Fund policies with respect to capital outflows. Recall that in the aftermath of the Global Financial Crisis, the issue the Fund was being asked to advise on was how to manage inflows (the outflows problem is mentioned in the 2012 paper only to say—do not use outflow controls except in a crisis or to forestall an imminent crisis). As the Fed in 2022 has been engaged in a steep path of rising interest rates which is having broad spillover effects to emerging and developing economies,

the salient conjunctural issue at present is how to manage capital outflows. Yet the revised paper produced by the Fund in 2022 completely sidesteps the issue.

This is very odd. The official reason that the revised paper sidesteps the challenges associated with outflows is that the Integrated Policy Framework does not address the issue. Put another way, the implicit reason is that the institutional view on outflow controls remains as it has always been, so the institution is not inclined to do any new thinking on it: this, of course, speaks volumes, since it suggests that fresh thinking is only warranted if the institution has already made up its mind about the conclusion such thinking should arrive at. One does wonder, though, why three years of effort by a large staff team was directed to understanding how to manage inflows—a problem that was pretty well understood at the time of the original paper in 2012, and indeed years before that, rather than confronting the conjunctural problem in 2021-22 of how emerging markets should manage outflows. Indeed, in the pandemic period, with the dwindling policy space of many emerging and developing countries, and the reality of rising debt distress across those segments of the Fund's membership, the value added of a fresh look at Fund policy on outflows. would seem potentially huge.

While it is difficult to justify the omission of managing outflows from the IPF workstream and the resulting 2022 Board paper, the poor reputation of outflow controls is widespread in both academic and policy circles (and is not confined to the IMF). Indeed, the bad name of capital controls historically stems more from the reputation of outflow controls than inflow measures. The former are often seen as tantamount to expropriation of foreign investors, of changing the rules of the game after the money has already entered the country. And those concerns are legitimate.

But the appropriate course for the Fund is not to duck the issue when countries are eager to learn about how to increase their policy space from dire levels resulting from the pandemic, and whether/how outflow controls might help to boost scope for counter-cyclical macro policy stabilization in such circumstances. One area of inquiry for the Fund is whether restrictions on outflows by residents ought to be considered differently from restrictions on outflows by nonresidents; the latter seems closer to expropriation than the former. And there is another reason the outflows management issue deserves the Fund's attention: the role of such measures in a program context. In Argentina, the most recent example where this has come up, Fund financing is widely seen to have been used to finance capital flight. In such circumstances, the issue is not so much whether the Fund should acquiesce and legitimize outflow controls requested by a member country. It is instead why the Fund does not *require* outflow controls when the alternative is widespread financing by the Fund of private capital flight, compromising the economic objectives of the program. Such issues deserve to be carefully considered rather than brushed off and left for another day.

**What is the destination**?

Many informed watchers of the Fund's policy on capital flow management believe that the Institutional View of 2012 was justified only as a temporary response to the extraordinary financial conditions and spillovers generated by US monetary policy in response to the financial crisis. Taylor (2019), for example, makes this point eloquently in the panel on which we both served at the Hoover Institution in 2019. Others on that panel urged the Fund "to find its mojo"

again, by which they meant returning to its earlier sound belief in unfettered international capital flows that was thrown off track by the Global Financial Crisis (and, a decade earlier, by the Asian Financial Crisis). Such a view has also been expressed by influential policy makers and academics at conferences organized by the IMF on reform to the international monetary system over the past decade or so.

Those who express a heartfelt wish for the Fund to return to its free-market, pre-1997 beliefs, are to some degree making a forecast of where the Fund will ultimately wind up. On this view, the Fund will eventually shed the misguided perspectives in the two recent Board papers, and regain its sanity about the soundness of open capital accounts. There is merit to the view that the Fund at its core is more closely aligned to the OECD's perspective of fully open capital accounts than the recent Board papers would suggest. While the Fund should be given credit for the limited flexibility allowed by the Institutional View, the latitude permitted by the Articles of Agreement is far greater, and has been largely ignored by the institution over the decades since the 1980s. But the fact that the Fund has ignored the vision in the Articles is salient. As is the fact that, in periods when emerging market countries have not complained loudly about the strictures imposed by the Fund and the stigma from Fund labeling of capital account policies, the Fund has pushed for full liberalization as its guiding principle (the "true North Star"), just as the OECD does. Unfettered cross-border flows create many challenges for emerging market countries, and the Fund's ideological bias is to weight the perspective of its largest shareholders more heavily than the concerns of non-advanced countries.

A further area that the Fund has not internalized, and which speaks to ideological bias, is the equity-efficiency tradeoffs engendered by open capital accounts (Blanchard et al., 2016, Ostry

et al., 2019; Furceri et al., 2019; Stiglitz and Ostry, 2022). Growth benefits from external financial openness appear to be weak, while distributional impacts, driven by a weakening of labor's bargaining power when one factor of production is mobile across borders and the other is not, seem to loom large. This is a further sense in which the crafters of the Articles of Agreement were prescient in allowing countries room to pursue national economic and social objectives with capital account regulations. The fact that the Fund has failed to recognize the distributional effects of free capital mobility (despite a very public posture in recent years on inequality), while accepting the growth benefits of open capital accounts unquestioningly, speaks to a lack of evenhandedness by the Fund on core issues within its mandate.

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